Should You Buy Baytex Energy Corp. or Canadian Oil Sands Ltd. Right Now?

Description

Oil prices just wrapped up their strongest month in six years and investors are wondering if they should start buying back into energy stocks.

Not that long ago, **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE) and **Canadian Oil Sands Ltd.** (TSX:COS) were two of the favourites, especially among dividend investors.

The super-sized payouts are long gone, but contrarian punters are now looking at the prices of these two stocks and trying to decide if big gains are on the horizon as the crude market recovers.

Let's take a look at Baytex and Canadian Oil Sands to see if one deserves to be in your portfolio right now.

Baytex Energy

Last June Baytex closed its $2.8 billion purchase of Aurora Oil and Gas Limited and hiked its dividend by 9%. Back then, oil prices still traded north of $100 per barrel and investors were all smiles as the company secured a significant asset portfolio in the coveted Eagle Ford shale play.

Six months later the world completely changed. Baytex slashed the dividend by nearly 60% and cut is 2015 capital program. Investors watched in utter disbelief as the stock hit $16 amid rumours of a cash crunch.

Management has worked hard to stabilize the balance sheet and the company now looks to be in much better shape.

Baytex raised $632.5 million in a bought-deal share issue and has negotiated new terms with lenders to avoid breaching its covenants. With WTI oil now trading near $60, the 5% dividend should be sustainable.

Canadian Oil Sands Limited

Anyone who bought Canadian Oil Sands when it dropped below $6.50 per share in late January is sitting on a nice gain. The stock has more than doubled and investors are wondering if there is still some fuel in the tank.

The crash in oil prices was the last thing Canadian Oil Sands needed. For the past three years the company has struggled with operational problems and high production costs. Canadian Oil Sands owns about 37% of Syncrude, a massive oil sands facility that has been plagued by unexpected mechanical failures and expensive shutdowns.

Syncrude has a production capacity of 350,000 barrels per day, but averaged just 258,100 barrels per day through 2014. Lower output combined with higher expenses means ugly production costs. In fact, Canadian Oil Sands reported 2014 operating costs of $49 per barrel.

The company is making progress on its efforts to get Syncrude back on track and the recent completion of two major capital projects will free up much-needed cash flow and reduce some of the financial risks.

Canadian Oil Sands expects to produce more oil this year than it did in 2014 and hopes to get operating costs down to $40 per barrel.

Which should you buy?

Both companies will see strong gains in their stock prices if oil continues to recover. Some investors have been buying Canadian Oil Sands with the hopes that it will be acquired by its Syncrude partners. I think Baytex is actually more likely to be taken out, but investors shouldn't buy either stock for that reason.

At this point, oil producers are still risky bets. If you believe oil has bottomed, Baytex still offers a nice dividend yield, but it looks like the easy money has already been made and both stocks could plunge again if crude prices start to move lower. I would look elsewhere for a new contrarian pick.

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1. TSX:BTE (Baytex Energy Corp.)

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